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## **Burlington Retirement Committee**

### ***Meeting of the Committee Members***

### **Agenda**

June 3, 2014 5 – 7pm

Pine Street Building Conference Room  
645 Pine Street, Burlington, Vermont 05401

**Present:** Mayor Weinberger, Councilor Bushor, John Federico, Councilor Paul, Bill Rasch, Jim Strouse, Bob Hooper, Joe Keenan (arrived late), Councilor Mason (arrived late), Mike Flora, Bob Rusten, Susan Leonard, Eileen Blackwood, Brian Lowe

**Absent:** Jeffrey Wimette, Councilor Knodell

Bob Rusten called the meeting to order at 5:05pm

5:00pm – 5:05 pm      **Approve Agenda**

Jim moved to approve, Bob Hooper seconded; approved unanimously

5:00pm – 5:05pm      **Review and Approval of April 22, 2014 meeting minutes**

Sharon Bushor moved to approve, Bill Rasch seconded

5:05pm – 5:10pm      **Public Comment**

None

5:10pm – 6:10 pm      **Discuss Consultant's Scope of Work Implementation Plan, Including Time Frames**

*All with Keith Brainard, NASRA*

#### Prior to call:

Councilor Bushor: Why does Keith's scope of work end in September?

Bob Rusten: This is something we wanted to discuss with the group tonight to get people's thoughts – the City will have four open contracts with the different unions, and it is important to try and begin those discussions as soon as possible.

#### Call with Keith Brainard

Keith Brainard gives an overview of his proposed plan of work – understanding the system, understanding the problems facing the retirement system, and subsequently helping develop appropriate goals for the City.

Keith notes that the goals are somewhat subjective – for example, the exact amount of the unfunded liability is not the primary issue. The more important issue is the financial distress the unfunded liability creates, and similarly so with the taxpayer contribution – the financial distress is the issue at hand.

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The complexity of the plan, public confidence in and support for pension system, and recruiting and retaining staff by having a good system round out the other goals Keith plans to focus on.

Mike Flora: Say we get to 85 percent funded. That's not necessarily a good goal if it is not sustainable, if for example there is substantial fluctuation year to year. Would you consider that progress?

Keith Brainard: Substantial fluctuation in the plan is not healthy. The plan and its demographics, assets, and assumptions require constant care. The goal setting process must continue over time.

Bob Rusten: Will you be setting the goals, would you be setting the goals? If us, how would you help us?

Keith Brainard: Not appropriate for me to set goals, but I can make suggestions and define reasonable parameters for your goals.

Councilor Bushor: Would you plan to address these goals sequentially or together, given the time constraints?

Keith Brainard: I have not yet spent a lot of time on that, but would plan to address each in sequence.

Bob Rusten: These goals are inter-related. Can you address sequentially?

Keith Brainard: They are inter-related. They can be addressed in turn, and resolved in coordination when each has been discussed. We can discuss a target for the unfunded liability, and discuss that in tandem with the taxpayer's contribution, for example, while holding off on discussing complexity till a later time. I am happy to discuss the goal setting sooner rather than later if the Committee agrees

(general agreement voiced by Committee)

Keith Brainard, continuing the discussion of the implementation plan. He explains his day job is to examine different pension systems, and that fact is relevant to the need to bring potential solutions from different cities to Burlington. His primary experience is with State systems, but he has some experience with city systems as well.

Bob Rusten: Any questions? I think to help give Keith some guidance, the Committee needs to define better what the "different model" means.

Joe Keenan: Do you mean defined benefit model as opposed to some other model?

Bob Rusten: We have looked at the actuarial assumptions, funding methods, and other issues, and in our discussion about hiring Keith, we talked about the need to examine the broader model. I think we need to give Keith some additional direction on what we mean by that.

Keith Brainard: I think I have a good idea what is needed here. I am familiar with the spectrum of retirement systems – and no pure defined benefit or defined contribution plans exist in the public sector. Risk is shared by employers and employees even in Burlington, as employee contributions mean that Burlington does not have a pure defined benefit plan.

Bob Hooper: Keith, you mentioned that our system is complex. In your experience, how complex?

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Keith Brainard: Burlington is complex, that is not unusual—Burlington's system is not unique and not that surprising. One thing that is surprising is having different benefit plans for each different union. That is the first time I've seen that.

John Federico: Do you mean the distinction between police & fire and general employees is unique? (*i.e., class A / class B*)

Keith Brainard: No, I mean having separate plans for each different union. The only system that does not draw a distinction between public safety officials and other unions is the Texas state system.

Bob Rusten: I want to make sure we are clear here. Is there any objection to having Keith pursue the goals we've outlined for all types of models? Are there any options that meet our goals not worth looking at? Limit the search in any way?

Bob Hooper: I think we'd need to discuss the defined contribution model further within the Committee before we seriously considered asking Keith to examine it.

Councilor Bushor: DC / DB does not seem like a strict choice to me – I am hearing it discussed tonight more like a spectrum, with no pure DC or DB. Keith, can you speak to that?

Bob Hooper: Further, Keith, do you have experience with major transition, like from a DB to a DC?

Keith Brainard: I should back up and explain further before answering these questions directly: My work is going to be within the five NASRA principles - mandatory participation, shared financing, benefit adequacy, pooled assets with professional management, and mandatory annuitization.

This sounds like a DB, and may describe a DB plan, but it could also include DC elements as well. I will not come back to the Committee recommending a pure DC system DC being sole retirement plan for any employee. There are some examples of system's switching to a DC-reliant model (Michigan (1997) and Alaska (2006)), which are not a pretty picture.

Mike Flora: In your experience reviewing different systems, where do you see people drawing the line? New employees or something else?

Keith Brainard: Mixed bag. States that faced major problems made more dramatic changes – and so reforms have run the gamut. Who is affected is a key part –some states have advocated legally or morally current employees cannot be part of the change. Rhode Island is an example on the other side. In 2010, Colorado did make a change for retired members, as well as substantial changes to their COLA and contributions.

Bob Rusten: A couple things. You've talked about two poles and places in between, with the poles being DC and DB model. Can you come up with elements of a plan or choices between those two poles that can address the concerns of all the members around the table here?

Keith Brainard: Absolutely – that is what I see as my job here.

Bob Rusten: Another stakeholder not at the table is the public. We will be asked why we did not pursue something like a defined contribution, and so would you be able to provide information about why you did not advocate or advocated against a particular approach?

Keith Brainard: Yes, absolutely.

Bob Hooper: I am not a fan of the imposition of a tiered system on employees since it is detrimental to workplace satisfaction between employees working beside each other.

Bob Rusten: Understood, but I would encourage everyone around the table to have an open mind as we consider different options.

Councilor Bushor: I want to make sure we engage the public in these discussions and explain what we did and did not pursue.

Bob Rusten: Understood, and that is why I asked Keith to provide explanations for choices he did not advocate.

Bob Rusten: I feel like this is a critical conversation and those who have not spoken need to make sure they are in agreement with the guidance we are giving the consultant.

Joe Keenan: I think what Keith is bringing forward will benefit the Committee and others – we need to keep in mind that different options about systemic changes can hopefully be used in a way to leverage the system forward in a way that generates public support and the support of the stakeholders at the table here. Recruitment and retention is an important issue here.

John Federico: Keith, looking at this, it seems like we are asking you to carve out the actuarial assumptions, funding methods, investment allocation, etc and focus only on the modeling question. Do you feel like this will limit your ability to come up with meaningful new ideas?

Keith Brainard: Those factors will not materially affect the work I do on the goals.

Bob Rusten: Given the timeline, how frequently should we meet as a Committee, and how often should we meet with you?

Keith Brainard: We should meet probably every other week, and this group should meet potentially in addition to that (if needed).

Bob Rusten: So we should take the implementation plan you've given us, and break into meeting dates and a real schedule to have specific meeting dates and topics.

Keith Brainard: I would be happy to help with that.

Mayor Weinberger: Keith, I want to make sure you hear the other side of the coin from what Joe Keenan notes is raised here. I understood your comments to mean that you and your firm believe a defined contribution plan is not something we should consider. I'm open to hearing that, provided that you can address questions that need to be raised on behalf of the public:

- Uncontrollable taxpayer cost
- Open-ended liability for taxpayers
- Lower returns without the magic of compounding

I'm hoping you can come back with something that addresses these concerns and allows us to appropriately explain the work of the Committee to the public.

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Keith Brainard: Understood and I want to clarify: Alone, a DC is an unreliable way to model a retirement system. However, DC elements may make excellent sense in combination. For example, mandatory employee participation in DC, along with traditional DB investment at a lower rate - basically, one of each.

Bob Rusten: I heard the poles, and what you're looking at is something in between.

Keith Brainard: Yes. Another idea, for example, is something like a supplemental plan (457, 403b, 401a) where the employer kicks in a match or a dollar amount to incentivize involvement. There is a place for DC, but my concern is when it is used in isolation it is unreliable.

Councilor Paul: What I hear from voters is the idea of "shared responsibility," and something I'd like to hear in whatever plan you bring forward. Voters don't have DBs, by and large. Another thought is that employees in Burlington might be willing to accept a delay in their benefits, in return for greater benefits, which would allow the City better position itself.

Keith Brainard: Yes. A good point, there are examples, and I can include this.

Bob Rusten: David Driscoll has also noted this is a possibility. The next step is for Brian and I to develop a more detailed schedule with Keith. Any questions, from you, Keith?

Keith Brainard: No, and thank you.

6:10pm – 6:25pm      **Review Mayor Weinberger's Updated Analysis/Proposal Regarding Modified Asset Distributions, Including Materials from Vanguard**  
*All*

Mayor Weinberger: The VanGuard analysis confirms my suspicion that there is potential to shift from active management to passive management and realize substantial savings. I think this is something we should look carefully at, and consider raising with the State.

Councilor Bushor: Did someone raise concerns about this?

Jim Strouse: David Driscoll did, but he was off-base. It is common.

Mayor Weinberger: We have looked into this, and it is fairly common.

Councilor Bushor: So this tracks the market, and isn't that also a risk.

Mayor Weinberger: There is risk in any type of investment.

Councilor Mason: Taking a step back, this Committee has no authority to make investment decisions. That is BERS purview.

Mayor Weinberger: I believe the Council has some ability to direct BERS if need be.

Eileen Blackwood: The Council has some leeway

Mayor Weinberger: Whether active or passive, you can make investments that are intended to stimulate growth or for capital preservation. You could pursue either of those strategies with a passive or active management approach. The proposal here is that a passive system eliminates the

need to pay people for analyzing the market. What you pay for is the asset allocation decision (preservation & growth) and the associated maintenance cost to keep a broad portfolio.

Bob Rusten: Propose to BERS?

Jim Strouse: We are going to do it, and we are already doing it.

John Federico: I don't know if what BERS is doing is similar to what the Mayor's proposing.

Chip Mason: You do this as part of your ongoing responsibility to the systems health. If the Committee pushes for this, we would want it by a date certain.

Bob Rusten: Does everyone think this proposal has substance (unanimous yes). Should our committee study this (unanimous no).

Joe Keenan: Something BERS would need to take seriously

Councilor Bushor: Has this model been around a long time? (Yes)

Mike Flora: Some potentially substantial short term savings, too, which could have important impacts

6:25pm – 6:40pm      **Discuss New Information from Buck Consultants on the Impact of Moving to Closed Amortization, Entry Age Funding, Mortality, and Open System**

Bob Rusten: Mike's point is related to the next component of the agenda, and the idea of what short terms savings could do for the system.

Bob gives overview of potential changes to actuarial assumptions outlined in spreadsheet provided by David Driscoll. He notes that changes to the actuarial assumptions (including moving to a tiered system or open group method) could result in up front savings but increased costs in future years. Using the spreadsheets provided by Buck Consultants, Bob demonstrated that re-allocating a portion of the savings into the system could substantially decrease cost in future years (and thus use a portion of the short-term savings to generate longer-term savings).

Bob Rusten: Is this something we should continue exploring (consensus is yes). Is it something we should ask BERS to do?

Bob Hooper: That could get expensive quickly.

Bob Rusten: Ultimately we will need to go to BERS and to David Driscoll to confirm the accuracy of the numbers under discussion. And, to bring the two strands of the discussion together, should we also ask BERS to explore the Mayor's asset allocation proposal, and to come back with answers for both topics in early September?

Jim Strouse, Bob Hooper, Dan of BERS, and Bob Rusten (all BERS members) agree this is something BERS should do and return by early September.

Councilor Bushor: Is that sufficient time?

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Eileen Blackwood: To follow on what Councilor Bushor is saying, if BERS comes back with a proposal and Keith comes back a new system redesign, how can we evaluate these different potential options?

Bob Hooper: If there is a savings, wouldn't that automatically lead to a tax reduction?

Mayor Weinberger: I think you're on to something, Bob, that deserves consideration.

John Federico: If we want to make changes to the funding mechanism, who makes those changes?  
Chip Mason: By charter or by practice?

Eileen Blackwood: CC appoints BERS members and assigns responsibilities by ordinance. Eileen reads the ordinance. Ordinances currently don't preclude BERS from making changes to the funding level; however CC could change the ordinances.

Councilor Bushor: If BERS were to make substantive changes, information should come back to the Council.

Bob Rusten: Do people agree with a target date of September? With intermediary check-ins? (unanimous yes). Brian and I will develop a schedule with Keith. BERS will look into the passive investment question and the potential changes to the actuarial assumptions, with a requested target date to return findings to this Committee of early September. Other questions?

Councilor Bushor: I would like to understand the schedule better.

Bob Rusten: Anything else on the agenda?

Mike Flora: An estimate of how we're going to wrap this up – an end date.

Meeting adjourned at 7:09pm